

INTERNET DOCUMENT INFORMATION FORM

A. :Report Title: Single Process Initiative - Eve of the First Anniversary

B. DATE Report Downloaded From the Internet _18 Mar 98

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): The Under Secretary of Defense for Acquisition and Technology

D. Currently Applicable Classification Level: Unclassified

E The foregoing information was compiled and provided by:
DTIC-OCA, Initials: ___PM_____ **Preparation Date:** 18 Mar 98

DIST - A

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.

19980323 034

DTIC QUALITY INSPECTED 4

"Single Process Initiative—Eve of the First Anniversary"

**Keynote Address of
The Under Secretary of Defense for Acquisition and Technology
Dr. Paul G. Kaminski**

at the

**DCMC SPI Lessons Learned Conference
Los Angeles, CA**

October 23, 1996

It is a great pleasure to be with you today. Especially so, because we are approaching the first anniversary of the single process initiative that Secretary Bill Perry and I launched on December 8 of last year.

As I reflect back to that point in time, most of our acquisition reforms affected only future contracts. We realized that to capture the full benefits of our reforms—we could not have an arrangement where new contracts required new processes to be established while at the same time, on-going contracts were executed using the old processes in the same facility.

This whole situation reminded us of a story about some of the initial attempts at economic restructuring in the waning days of the former Soviet Union. When asked how the Soviet Union was proceeding with the implementation of Perestroika, a Soviet economist responded with this description: "It's as if England had decided to switch from driving on the left to driving on the right side of the road, and then proceeded to implement that decision gradually. . . the first year for cars; the second year for buses; and the third year for trucks!"

I think you would agree that in this environment there would be very little incentive to change one's driving habits until the trucks make the change in year three. The problem is exacerbated by the fact that the cars and buses do not make the switch as planned, and as a result, year three somehow never seems to come around. This lesson was not lost on Secretary Perry or I last December.

And so we used our integrated product team model to set up a mechanism for making "block changes" to modify the specifications and standards for all existing contracts on a facility-wide basis, rather than on a contract by contract basis. Our goals were to consolidate or eliminate multiple management or manufacturing processes and rely on world class commercial processes as much as possible. Our end objectives were

and still are: one, save money; two, obtain a better product; and three foster a more competitive industry.

After nearly a year of SPI implementation, I am very proud of your accomplishments thus far. Today I would like to say a few words about the progress we've made in implementing this initiative. Then, I will share with you some of the lessons learned so far. And finally, I would like to get your feedback on what is working or not working, or what you would like to see changed.

IMPLEMENTATION PROGRESS

I think this kind of discussion is very important, not just for the success of the initiative within DOD, but also because I think the single process initiative has such wide applicability across other federal agencies. On May 17 of this year, NASA became a full partner with the DOD and issued guidance for use of the single process initiative and block modification changes. The FAA is in the process of coordinating a draft policy memorandum—final guidance could be issued within a month.

Earlier this morning, Bob Drewes shared with you some of the measures of our progress in implementing this initiative thus far. In the nine and half months since the initiative started, over 100 contractors have proposed over 500 process changes. Once we have accepted a proposal, it has taken us an average of around 110 days to adopt the modification, and to date, we have already modified about 170 processes.

As of October 15, 1996, 53 proposed process changes—or about 10 percent of the total—involved some type of consideration request by the government. Of these, consideration has been finalized on only 16 processes. These statistics are interesting from the perspective that there could be a “good news, bad news” story here. The good news could be that the government is not “bogging down” the process by asking for the preparation of unnecessary cost proposals.

The bad news is that we could be picking the “no cost” low hanging fruit first. If so, as we move along further on this implementation track, things may become more difficult as we deal with more actions involving negotiation of consideration. This could become more of an issue—particularly in the case of long-term, fixed priced contracts—where a cost analysis indicates there is the possibility of significant net savings. It is important to remember that consideration is required when significant savings will occur on existing fixed price contractors. ACOs must address consideration on SPI proposed changes and document all determinations.

The first block modification made under this initiative targeted the product assembly process at Texas Instruments Defense Systems and Electronics. Before the single process initiative, the assembly process was controlled by about 65 variations on

38 defense specifications; now, the process will be governed by eight specifications and standards. Moreover, all eight are performance-based, commonly-accepted commercial specifications and standards. That means that Texas Instruments can use the same processes to make commercial and government products, and in turn, they have the flexibility to allow their suppliers to consolidate the number of their processes.

We learned an important lesson through our other block modification agreement with Texas Instruments: we not only can save time and reduce costs, we can make the workplace safer and cleaner. Texas Instruments and the Joint Logistics Commanders Group on Acquisition Pollution Prevention worked together to develop a block modification for a paint and primer facility. They found that by eliminating four military specifications, the facility would also eliminate thousands of pounds of volatile organic compounds and solvent and paint from their waste stream every year.

We next signed what I call the “mother of all block change modifications” with Raytheon a little over six months ago. This single block change affects 16 separate Raytheon facilities and a total of 884 contracts in the areas of soldering procedures, engineering change approval, acceptance testing, configuration audits, annual test station certification, material review boards, cost data and performance reporting, calibration standardization, and component rescreening. The agreement is deceptively simple – the modification allows Raytheon to take advantage of industry-wide practices that meet the intent of military specifications and standards.

I believe one of the keys to our success thus far has been our ability to work together in teams. The creation of Management Councils at contractor locations have been at the foundation of our efforts to improve communications and facilitate implementation of the initiative. I understand that Litton Guidance and Control Systems, Woodland Hills, CA has enjoyed considerable success in working on a Joint Management Council to convert their processes and will share their experiences later today during the break out sessions.

The Management Councils have worked as integrated teams representing important stakeholder interests across the Department and industry to develop solutions that aren’t just smart but are also achievable. In the coming months, I fully endorse the expanded use of these Management Councils by DCMC, DCAA, the components, and the contractors to reduce, if not eliminate, redundant audits and reviews performed by the government at specific contractor locations. I see great potential in using these councils to facilitate partnering of the principal stakeholders and accelerating implementation improvements.

LESSONS LEARNED

I want to tell you now about some of the lessons we have learned. Jerry King, the president of Boeing Defense & Space Group, directed that all contracts would be managed using the earned value technique, regardless of contractual requirements, long before we announced the single process initiative. The Defense & Space Group is well along in implementing a common management system at all locations, and is applying it to commercial work also. The lesson here is that there is considerable untapped benefit potential in moving to common management processes – not just common manufacturing processes.

Earlier this year, we also signed block change agreements with AAI Corporation and Lockheed Martin Orlando. Both agreements will permit the contractor to use an ISO 9000-based quality system on current contracts – about 300 contracts, in the case of Lockheed Martin. We moved from the concept stage to a signed agreement in just 70 days with AAI and 117 days with Lockheed Martin Orlando. I think the most important lesson we have learned so far is that we can turn these agreements around quickly and at minimal cost, allowing the industry – and the taxpayer – to capture the cost savings and efficiency improvements in short order.

This experience led us to establish a 120 day time standard for processing approved concept papers. We're finding that the process moves along quicker if concept papers tend to contain proposals for process changes rather than statutory or regulatory changes. On papers affecting multiple facilities, it helps to define the implementation schedule for the contract modification.

We've learned that one of the keys to cutting the cycle time of the concept paper review and approval process is to have a component team leader who understands the work load associated with his or her duties and is committed to making the 120 day standard work. A couple of other keys to cutting cycle time include avoiding gridlock by escalating problems early and by securing the commitment of all stakeholders.

Once the concept paper has hit the modification stage, we have learned that ACOs can speed the modification issuance process by drafting the mod early, getting the contractor's help, getting inputs from the PCO, doing the technical modification first, and identifying all affected contractors.

FEEDBACK

I would like to encourage all of you to participate in the single process initiative and take this opportunity to improve your underlying business processes. The Department's senior leadership stands ready to support you in any way possible.

At this point, I am very interested in getting your feedback, but before we move on to questions and answers, I would like tell you about some of the feedback we have already received. Earlier this year, some of you have pointed out that the Department needs to address the issue of propagating the single process initiative down to subcontracts. In response to your concerns, the Defense Contract Management Command formed an Integrated Process Team. This team met and made its recommendations. As a result of those recommendations, I signed a policy memorandum on September 3, 1996, that provided amplification for dealing with changes for prime contractors who are also subcontractors to other contractors.

Industry has made it clear that we still have more to do in this area. As a result of feedback received since September 3rd, DCMC is forming a process action team to look into the remaining subcontractor flowdown implementation issues and develop policy implementation guidance. I am confident that we can find a way to extend block changes to significant subcontracts—and without the government dictating the relationship between prime contractors and their subcontractors.

The news in this area is not all negative. We have seen a few successes. Specifically, Lockheed-Martin and Boeing have worked together to implement a common quality system on the F-22. This is the first major subcontract change resulting from flowdown of the single process initiative.

At this point, I would ask our industry associations to do more to facilitate implementation of the single process initiative in regard to the prime-subcontractor issue. As a corollary to this idea, prime contractors need to begin arranging conferences with their subcontractors to bring them on-board with this initiative. In this regard, I would like to acknowledge the good work of the Space Systems Division of Rockwell International in Downey, CA. Tomorrow they will conduct an SPI conference to educate and encourage their subcontractors and vendors to participate with them in the SPI program.

I can not overemphasize the importance of having everyone—primes and subcontractors alike—implement this initiative as soon as possible. In the words of the Soviet economist I spoke of earlier, we will derive the greatest leverage from this initiative when everyone—cars, buses and trucks—all make the change at the earliest opportunity.

Some of you have expressed concerns about the sharing of information submitted through this initiative. The government will reserve rights to the data you provide us, but we do understand that we need to protect proprietary information or information that may affect competitiveness. I want to assure you that we will protect the proprietary information you provide us from unauthorized disclosure.

I have also heard questions about the impact of the single process initiative on evaluations of past performance. It is too early to really answer these questions, but I believe the effect will be positive. In the past, the Department has tended to focus on compliance with requirements, but this initiative will help us focus on what really matters – the quality and cost of the product.

Not all of the concerns about this initiative come from industry. For example, in the cost performance reporting area, some DoD program managers are concerned that they will not be consulted about proposed changes in the reporting level. Our policy is that reporting should normally be no lower than level three of the contract work breakdown structure, except for those lower level elements that the program manager judges to be high risk. For those critical elements, reporting should be required at whatever level they appear in the work breakdown structure (WBS).

And because every program is different, reporting must be tailored for each program. An arbitrary change – such as level two or three reporting for all contracts in a facility – would override the program manager's judgment and could expose the government to unacceptable risk on cost-based contracts. For this reason, the single process/block change initiative must address program reporting issues program by program, not as a "one size fits all" solution, and future contracts must be treated on their merits.

SUMMARY

In closing, my thoughts on the Department's single process initiative can be summarized as follows:

- The Single Process Initiative is significant in that it modifies existing contracts "as a block" to address a very real problem in our contractor's facilities – the requirements that impose different, even inferior, processes to manufacture similar product lines;
- I see great potential for improvement of our implementation efforts through expanded use of management councils to reduce redundant audits and reviews;
- We have enough implementation experience under our belts to know the a 120 day processing standard is achievable if concept papers contain sufficient detail; when component team leaders understand their workload and devote adequate attention; and when ACOs start the mod process early and secure the active involvement of the user and PCO;

- We must find a way to extend block changes to significant subcontracts – and I am confident we can do this without the government dictating the relationship between prime contractors and their subcontractors; and finally
- I am seeing evidence that this SPI effort is now taking root within a wide spectrum of our supplier base.

Thank you for your efforts and willingness to take risk. I'd like to thank Bob Drewes for his leadership. And I'd like to emphasize that it is a team effort. We're all in this together – both government and industry.

In 1893, Victor Hugo wrote: "More powerful than the tread of mighty armies is an idea whose time has come." We are at such a moment on this, the eve of the first anniversary of the Single Process Initiative – an idea whose time has come.

Thank you all. I look forward to hearing from you – now and in the coming months.